

VZCZCXRO2469  
RR RUEHDBU RUEHLN RUEHVK RUEHYG  
DE RUEHMO #3071/01 3561132  
ZNR UUUUU ZZH  
R 221132Z DEC 06  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC 6042  
INFO RUCNCIS/CIS COLLECTIVE  
RUEHDX/MOSCOW POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 03 MOSCOW 013071

SIPDIS

SENSITIVE  
SIPDIS

DEPT FOR EUR/RUS

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [KDEM](#) [PINR](#) [RS](#)

SUBJECT: NIZHNIY NOVGOROD: VERTICAL CONTROL INSUFFICIENT?

REF: A. (A) MOSCOW 12901  
[1](#)B. (B) MOSCOW 12916

[1](#)1. (SBU) SUMMARY. With President Putin's appointment of Governor Valeriy Shantsev in August 2005, a United Russia political elite with strong business interests now firmly controls Nizhniy Novgorod and its region. The establishment of the regional branch of the second Kremlin-sponsored party, "A Just Russia (SR)" in Nizhniy has been delayed by infighting among its new leadership (ref A). Despite its historical significance as a military research and scientific center, some foreign investment, and its current position as the capital of the Volga Federal District (VFD), Emboff found during a December trip that economic development and job growth are anemic. The region tightly oversees investment projects and corruption is allegedly rife. The region has received extensive National Project funds for healthcare. The demographic crisis concerns the political establishment. END SUMMARY.

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UNITED RUSSIA: ONLY GAME IN TOWN?  
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[1](#)2. (SBU) Regional Governor Valeriy Shantsev had little familiarity with the Nizhniy Novgorod region before becoming governor in August 2005. Shantsev was a Communist Party (KPRF) member who switched to United Russia before being appointed by President Putin. He succeeded Gennadiy Khodyrev, a KPRF member who ran for governor, reportedly against the will of the Kremlin, and won 60 percent of the vote in 2001.

[1](#)3. (U) Legislative Assembly elections in March 2006 saw United Russia (YR) win 44 percent of the vote. KPRF won 18 percent of the vote, the Party of Pensioners 17 percent, and LDPR 6 percent.

[1](#)4. (SBU) In a December 14 meeting, United Russia Regional Faction Leader Aleksandr Vaynberg bragged that no other party would be able to compete with United Russia for the foreseeable future. KPRF Regional Deputy Vladislav Yegorov was less impressed with United Russia's governing skills, labeling YR regional deputies "submissive."

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KPRF: CLAIMS GROWING URBAN SUPPORT  
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[1](#)5. (SBU) Countering Vaynberg's assertion that the KPRF, which "still waved posters of Stalin," was in decline, Yegorov said that in the March elections, the KPRF had a strong showing in urban areas, winning approximately 25 percent of the vote in Nizhniy Novgorod, Dzerzhinsk, and Sarov (formerly Arzamas-16). He buttressed his claims of

increasing KPRF support by underscoring that the 18 percent vote in March 2006 was 5 percent higher than KPRF's 13 percent showing in the 2003 State Duma election.

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A JUST RUSSIA: TRYING TO GET STARTED  
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¶6. (SBU) Nizhniy's regional branch of A Just Russia has still not been established, reportedly because of infighting within the leadership. Both Vaynberg and Yegorov were dubious about A Just Russia's chances of melding its three constituent parties into an effective coalition. Deputy Chair of the Party of Life's (one of the three constituent parties of A Just Russia) regional committee Svetlana Cheromina, however, attributed the disarray to time constraints and predicted it would be resolved by the end of the year. Alluding to the fact that the leaders of all three parties merging into A Just Russia were strong personalities with powerful business interests, she suggested that power might be shared by instituting a rotating leadership. Nonetheless, she was sure that A Just Russia would win seats in the next Duma election.

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YABLOKO: WAITING FOR THEIR MOMENT  
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¶7. (SBU) With no likely representation in the regional or State Duma in the near future, Mikhail Yevdokimov, the Nizhniy representative of the liberal democratic party Yabloko despaired at voter apathy and expressed amazement at the GOR's "paranoia." (NOTE: Emboff's meeting occurred the day after United Civic Front Garry Kasparov's Moscow office

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had been raided by plain clothes security officers (ref B).) Saying that democratic forces had been unprepared in 1991 and "missed their chance", Yevdokimov confidently asserted that there would be another opportunity in the future. He unenthusiastically agreed with KPRF's Yegorov that in the meantime "right" and "left" forces could work together in areas of mutual interest.

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INVESTMENT CLIMATE: REGION-CONTROLLED  
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¶8. (SBU) Head of the Nizhniy Novgorod Region's International Cooperation Division Olga Guseva was upbeat about investment in Nizhniy. She spoke in glowing terms about the efficiency of the committee charged with approving investment projects. Presenting a glossy package outlining the region's legislative support and tax incentives, Guseva reported that an investor conference last summer had been greeted positively, although she declined to discuss particulars. (Intel has had a presence in the region since 1992, when it contracted software developers from Sarov.)

¶9. (SBU) On a less cheery note, a brand-new IKEA was closed for two weeks this December due to alleged fire code violations. Vadim Nosov, head of the Union of Retailers bluntly told us that it was because bribes had not been paid.

¶10. (SBU) Interlocutors unanimously reported that loans are difficult to get without collateral and that rates are prohibitively high, thereby discouraging the development of business start-ups. While niche market low-profile entrepreneurs operate with little support or interference from the local government, entrepreneurs in more competitive industries are more susceptible to abrupt playing field changes. Nosov pointed to the decision to close small street kiosks by January 1, 2007, made at the behest of businesses with close ties to the local government, as evidence that Nizhniy was a riskier place for small businesses.

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FEDERAL MONEY FOR HEALTHCARE  
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¶11. (SBU) In the healthcare sector, Sergei Krivatkin, a physician, marveled at the federal money that was pouring into the region. Linking Moscow's largesse to Shantsev's appointment, Krivatkin noted that the monies were not only going into salaries for doctors and improving hospitals, but also for purchasing state-of-the-art medical equipment. KPRF's Yegorov predicted that the money would stop after the 2008 presidential election.

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FEW DESIRABLE JOBS  
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¶12. (U) Beyond the medical sector though, progress is less visible. When VFD's Presidential Representative Sergei Kirienko was appointed head of Rosatom in November 2005, the press reported that Putin expected Kirienko to revitalize Russia's decaying nuclear power research sector, much of which is heavily centered in the Nizhniy Novgorod region. In a December 13 meeting, Nataliya Gladkova, a Medical Professor and Russian Academy of Sciences research physicist, conceded that while she considered life in Nizhniy vastly improved, many young people, including her students at the Medical Academy, were leaving for Moscow or abroad. While Putin had stressed increased investment in the science sector, funding had not yet increased.

¶13. (SBU) Per Vaynberg, the demographic crisis was the region's main problem. He suggested that improving the environment could increase the birth rate. Other sources cited the lack of housing as a difficult issue in the region. United Russia Regional Deputy Aleksandr Serikov of the Housing Problems Committee told us that it would take at least twenty years to meet the housing demand using current methods. Valeriy, a taxi driver, complained that while there was plenty of housing available, no one could afford it.

¶14. (SBU) University students fretted that jobs were very difficult to get after graduation, even with an "indispensable" second language. While there is an unemployment rate of two percent in the region, Guseva clarified that many of the jobs were minimum wage. Party of Life's Cheromina thought university students had unrealistic expectations.

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YOUNG POLITICALLY APATHETIC  
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¶15. (U) Students seem to be apolitical. In a university outreach session, students backed Putin, but had little to say about United Russia. The KPRF was a dinosaur and no one had heard of A Just Russia. A straw poll revealed that none of them had voted in the last election.

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COMMENT  
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¶16. (SBU) Despite its control of the regional government and cash injections from Moscow, United Russia's leadership has not yet achieved meaningful success in addressing several key issues in Nizhniy Novgorod. Although there does not yet seem to be a credible challenger, A Just Russia and the KPRF could make inroads during the next election if United Russia continues to rely on its ties to Moscow instead of addressing local problems.  
RUSSELL